FY 2008 FINANCIAL TREND ANALYSIS

FINANCIAL TREND ANALYSIS

Gallatin County, Montana

February 20, 2008

III. Financial Trend Analysis

Trend Analysis Introduction:

A total of 18 trends are being measured for FY 08

Trend Analyses are prepared to depict the financial condition quantitatively through the utilization of financial trend monitoring. The system uses 18 trends and are ranked using Favorable, Watch and Unfavorable. Trends may be expanded in future years as workload indicators and performance measurement information is made available.

The analysis of these indicators is designed to measure the financial health of Gallatin County Government. The analysis that follows and the conclusions and recommendations involve analyzing the relevant factors to determine the financial health of the County. The factors used to analyze trends include:

- **Working Capital (Cash)** -Balances and reserve level amounts used to fund budget;
- **Revenue** – Types, amount of revenue, revenue per capita, property tax revenue, and comparison of Non Tax revenues;
- **Expense** –Trends, type of expenditures, expenses per capita, employees per capita, fringe benefits, compensated leave balances, as well as cost of salaries;
- **Capital** - Outlay, Reserve, projects and adherence to plans; and
- **Growth** – Population, taxable value, and millage

Financial indicators are analyzed-based on County financial policy

This report examines the preceding items and others in determing the current financial condition of the County. The County's adopted financial policies, as well as relevant national standards, which are considered in the analysis and selection of trend data.

Specific information and data were taken from the County's audited financial statements and the approved budget document. The years reviewed are from 1970 through the current fiscal year. Trend analysis is based primarily on annual reports and budgets from 1996-97 through 2006-07 with the current budget used as the basis for projections.

Summary of analysis:

The trend analysis that follows will provide the Public, County Commission, County Administrator, Elected Officials, Departments and County Employees a glimpse into the County's financial position. The analysis allows the County to identify specific areas where new policies are desired, where current policies need revision, and where policies need to be eliminated.

Each financial indicator has been assigned a rating. The ratings are Favorable, Watch, or Unfavorable.

- **Favorable** is given to trends that adhere to the County mission, vision, goals, objectives and policies. A favorable overall ranking requires 13 or more Favorable indicators;
- **Watch** is a trend that is in transition and may be in a downward cycle, but the trend has not reached unfavorable status. A watch for the overall rating occurs when individual ratings are given a 'Watch or Favorable' rating for 10 through 12 items.
- **Unfavorable** is assigned to trends that are downward or negative and immediate attention is needed to address the trend. An Unfavorable overall rating occurs when 9 or less indicators are Favorable;

The following table shows a summary of indicators for 96-97 through the 07-08 budget years. The table illustrates the ratings assigned by indicator and year.

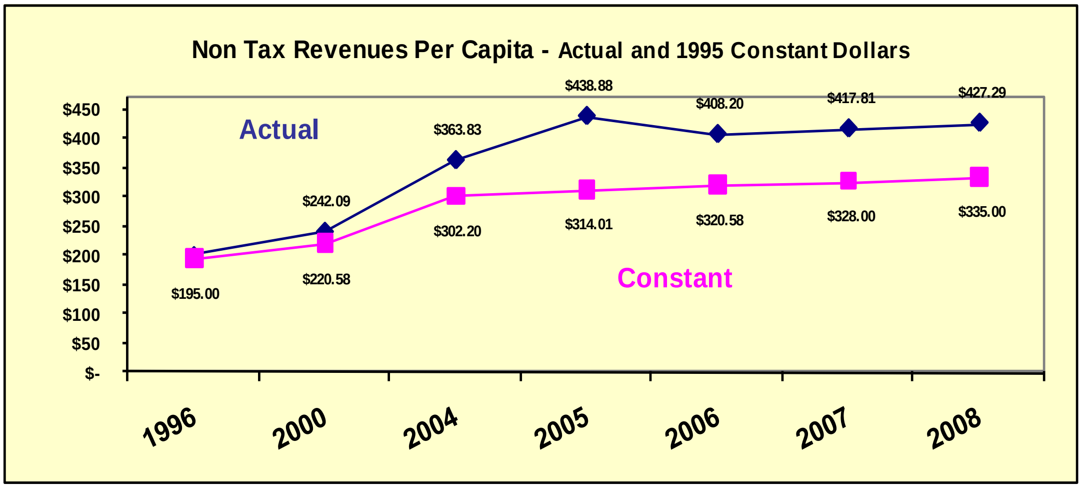
Indicators	96-97	99-00	01-02	02-03	03-04	04-05	05-06	06-07	07-08
Revenues per Capita	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Property Tax Revenue	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav.	Fav.
License & Permit Rev.	Fav	Fav	Unfav	Fav	Fav	Watch	Fav	Fav.	Watch
One – Time Revenue.	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav.
Inter-government. Rev.	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav.	Fav.
Utilization of Cash	Watch	Fav	Fav	Fav	Fav	Unfav	Fav	Fav.	Fav.
Expenses per Capita	Unfav.	Unfav	Fav	Fav	Fav	Fav	Fav	Fav.	Fav.
Expenses by Category	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav.
Employees per Capita	Unfav.	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Unfav.
Sworn officer per capita	Fav	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav.
Fringe Benefits	Unfav.	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav.
Capital Outlay	Fav	Fav	Fav	Fav	Fav	Unfav	Fav	Fav	Fav.
Compensated Absences	Unfav.	Unfav	Unfav	Fav	Fav	Watch	Watch	Unfav	Unfav.
Property Values	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav.
Residential values to total prop. Values	Watch	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav	Unfav.
Property Tax Statistical Analysis						Fav	Fav	Fav	Fav.
Debt	Fav.	Fav.	Fav.	Fav.	Unfav	Fav.	Unfav	Fav.	Fav.
Population	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav	Fav.
TOTAL FAVORABLE	**11**	**12**	**12**	**14**	**13**	**11**	**13**	**14**	**12**

The following are the concepts used to establish each Indicators Favorable Rating:

- Revenues per Capita – an increase in revenues per capita shows growth;
- Property Tax Revenue – an increase in dollars generated shows growth in the County tax base;
- License and Permit Revenue – an increase greater than inflation, shows growth in the economy;
- One Time Revenue – decrease or status quo in one-time revenue used for operating expenses indicates current revenues ability to support current expenses;
- Inter-Governmental Revenues – increase of revenues shows less reliance on taxation;
- Utilization of Cash – a decrease or status quo in amount of cash used for on-going expenses;
- Expenses per Capita – increase in expenses per capita, shows growth in commitment to services provided by government;
- Employees per Capita – decrease in residents served per employee is favorable. If trend shows increase for two or more years, unfavorable rating is warranted.
- Sworn Officers per Capita – maintain 1 officer per 2,200 residents, or less (See pages 22 & 24);
- Fringe Benefits – decrease or status quo of percentage benefits are to salaries;
- Capital Outlay – funding at greater than 10% of operating budgets;
- Compensated Absences – decrease or status quo, after inflation, compared to previous year;
- Property Values – Increase in property values greater than rate of inflation;
- Residential values – decrease in percentage residential values are of total taxable value;
- Property Tax Statistical Analysis – growth in Average Taxable Value and Median Taxable value shows sustainable growth in tax base;
- Debt – debt principal and interest maintained below 20% of operating expenses; and
- Population – increase in population show growth in area.

The overall rating for FY 2007-08 is **'WATCH.** Currently 12 indicators are Favorable, 1 is in a Watch status and 5 indicators are Unfavorable. This is a slight change from FY 07 when 14 indicators were Favorable.

Non Tax Revenues Per Capita:



Finding: ***Favorable:*** Revenues per capita reflect an increase when analyzing both actual and constant dollars for FY 1996 through FY 2008. The calculation for FY 2008 is based on the approved budget. The significant increase in FY 02 is from the creation and transfers associated with the Public Safety Fund.

The Chart shows a gradual growth in actual dollars generated per capita from FY 1996 through FY 2008. Constant dollars, using 1995 as the base year, show a smaller increase each year.

Revenues actually received have seen increases including the following:

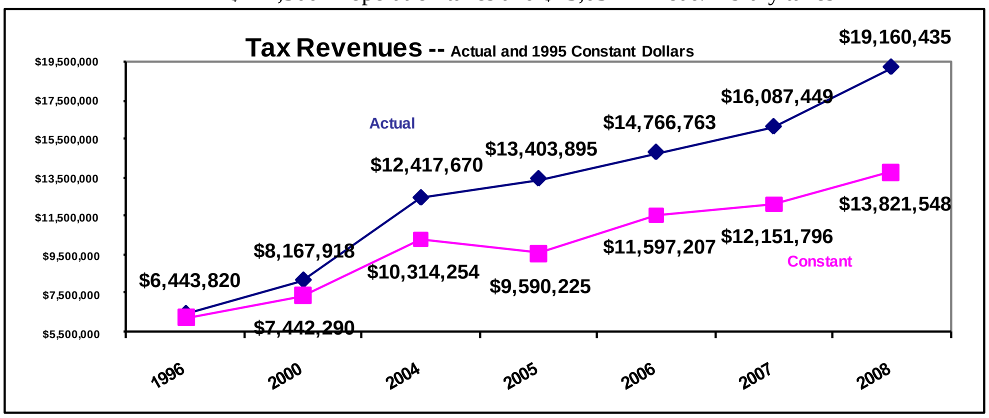
- Intergovernmental Revenues – money received from Federal, State, and Local Governments increased from $1,022,810 in FY 96 to $6,010,420 in FY 07. A 5.87 fold increase in 11 years. The increase for FY 05 and future years is from State Entitlement for lost MV Revenues.
- Charges for Services – Clerk and Recorder fees, Clerk of District Court Fees, Sheriff Services etc. have increased to $4,742,373 in FY 07, a 154% increase from FY 00. Rest Home charges are excluded from this number for FY 03 and future years.
- Fines and Forfeitures – revenues from the Justice Court increased 175% from $322,078 in FY 96 to actual collection of $885,610 in FY 2007.
- Other revenues that have increased include Investment Interest by 25.62% for the General Fund and Local Option MV fees have increased by $1,389,118 in the last 7 years. Investment will go down as interest rates decline and cash is used to fund ongoing operating costs.

Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the county is maintaining or improving capture of costs for services.

<u>Property Tax Revenues</u>:

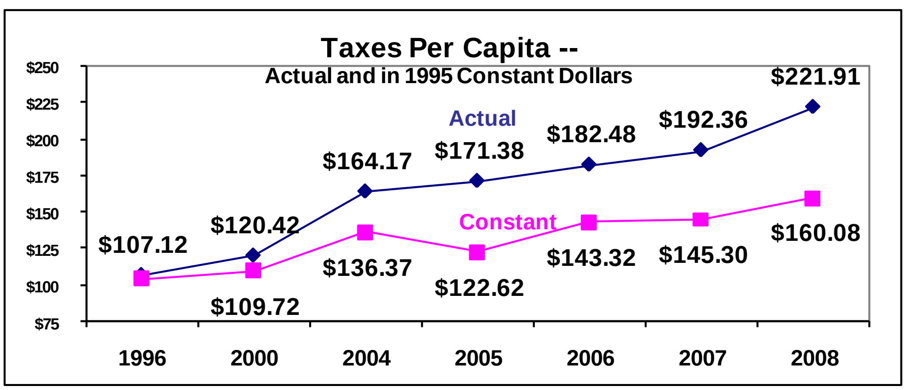
The Tax Revenue chart shows the <u>actual</u> dollars collected for FY 96 through FY 2007, with FY 2008 using Budgeted Tax Revenues. The graph also shows revenues based on calculation for <u>constant</u> dollars using 1995 as the base year. Items that have affected tax revenues include:

- 1997 Voter approved 3.50 mill increase for Library
- 2000 Use of Floating Millage to maintain revenue stream
- 2002 Increase 3 mills for Health Insurance continued use of floating mills
- 2003 Added $485,000 for Bricks and Mortar tied to public safety
- 2005 Used New Construction for operations and maximized millage
- 2006 New construction for Capital Projects, Permissive Medical and Floating mills.
- 2007 Unused $535,450 in operation taxes and $33,923 in Road/Library taxes.
- 2008 Increased by 9 mills taxes for voter approved Dispatch Levy. Unused $724,500 in operation taxes and $73,034 in Road/Library taxes



Finding: ***<u>Favorable</u>*** Property Tax Revenues have increased for 12 years and are budgeted to increase for FY 2008. With the ability to levy the unused taxes from FY 08 and continued construction in the county, this positive trend should continue f<u>or one more year</u>. With the slowdown in construction, future years may be in a 'Watch' status.

The next graph shows taxes per capita using actual taxes and taxes in constant (1995) dollars.



The graph shows that in constant dollars, residents are paying $52.96 more in taxes than 12 years ago, ($4.41 per year). Actual tax dollars paid increased by $114.79 ($9.57 per year) since 1996.

<u>Favorable = tax revenues and Taxes per capita show an increase to offset inflation and to allow for growth caused by increase in population.</u>

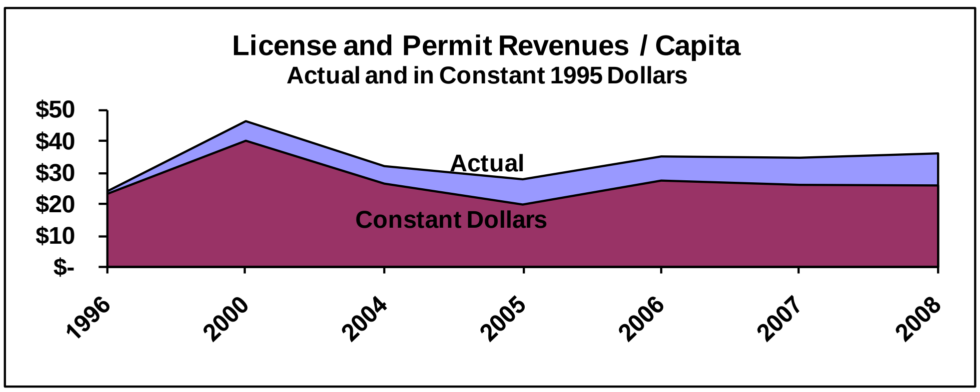
License and Permit Revenues:

Licenses and Permits saw consistent increases prior to FY 02.

Revenues generated through collection of Licenses and Permits saw consistent increases in previous years. The two major revenue sources were the 1.4% Ad Valorem Tax on Motor Vehicles and the ½ of one-percent Local Option Tax on Motor Vehicles. Both revenues were growing at an average of 10%+ per year. The 1.4% Ad Valorem Tax was eliminated in FY 02 with this revenue being sent directly to the State of Montana.

The State gives the County an entitlement plus a yearly adjustment. As noted above, Gallatin County was seeing a 10% increase in Motor Vehicle revenues, compared to the 4.05% increase for the FY 08 Entitlement. Other revenues included in this area were increasing an average of 35%, except for Personal Property Tax reimbursement, which decreased by 14%. Taking all factors into account, the County has not seen the growth from the entitlement compared to previous revenue sources.

The County continues to generate increased revenue from the local option tax (.5%), which grew by 7.39% in FY 07. Mid – year collections show a decrease from previous years to the 3.035% range. If this continues for the balance of the year, revenues for the local option tax will grow less than 3% for the first time, which is below current inflation calculations.



Finding: ***WATCH.*** License and Permit Revenues continue to see growth from a low in FY 01. The Constant Dollar calculation shows a slight increase in actual revenue. Unfortunately it is not great enough to exceed inflationary pressures. I am concerned because the slowing of growth in the local economy will slow or eliminate growth for the local option revenue.

Slight increase Revenue Source

Current estimates are that Licenses and Permits will continue to increase for the next several years, provided the State of Montana does not decrease the entitlement through legislative action.

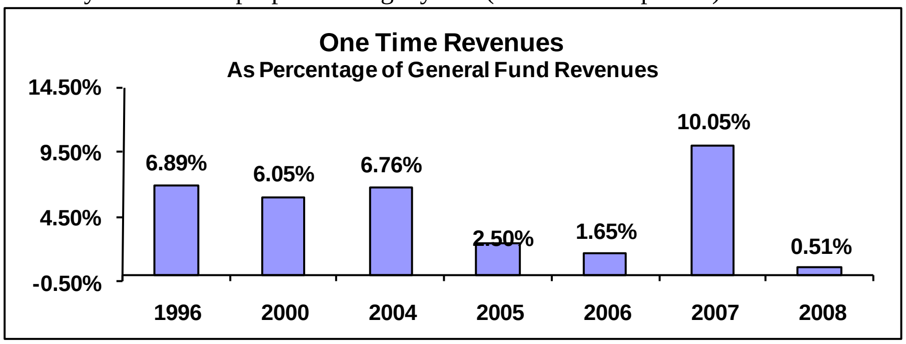
Favorable = an increase greater than inflation in the actual and constant dollars received from the License and Permits, non-tax revenue source will maintain service levels.

One Time Revenues:

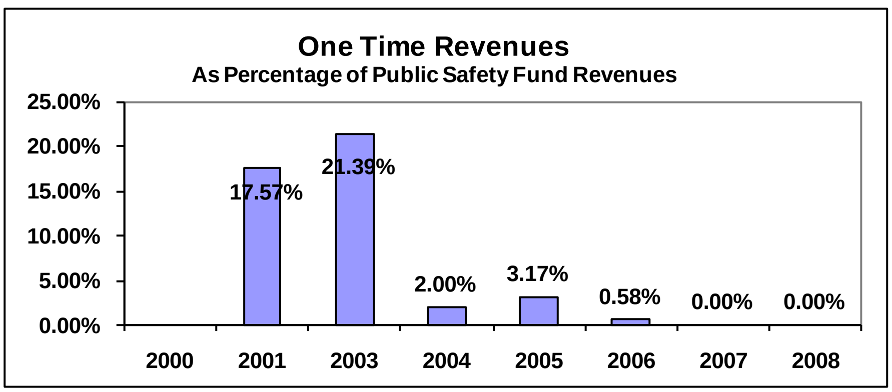
In accordance with prudent fiscal policies, one time revenues are used to fund one-time expenditures.

Revenues that are considered 'one-time' include grant funds not awarded for multiple years, transfers in from other funds and sale of assets or leases. The General Fund in prior fiscal years and Public Safety Fund in FY 2000 through FY 2003 received significant amounts of revenue from this source.

When recommending the amount to be funded at the beginning of the budget process, the Finance Office recommends use of one-time revenues to fund expenses that will only occur in the proposed budget year. (One-Time Expenses)



Finding: ***Favorable*** One-time revenues as a percentage of the General Fund's total revenues increased in FY 07 for the close out of the District Court Fund. The dollars were being spent on increases in Reserves and other one-time expenses. FY 08 sees a dramatic decrease that is planned to continue into the future.



The decrease of one-time revenues in the Public Safety Fund is the result of the County Commission decision to levy taxes in the Public Safety fund instead of levying in the General Fund, Employer Contributions and transferring to the Public Safety Fund.

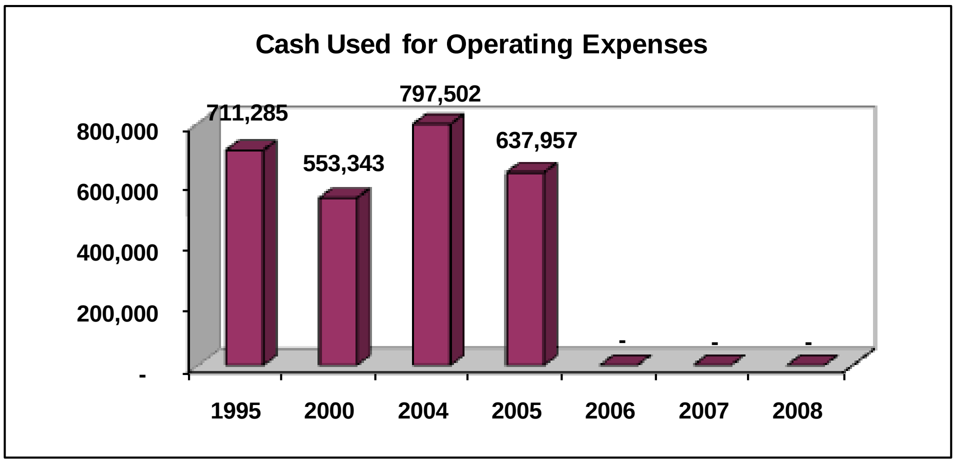
Consistent with the County's and National Budgeting Standards, money generated by one-time revenues is primarily used for non-reoccurring expenses like updating the Courthouse and similar activities. Therefore, the rating is favorable.

Favorable = a gradual decrease in the actual percentage one – time revenues are to the total General Fund and / or Public Safety Fund.

Utilization of Cash:

The County continues the shift from using cash for Operating. Expenses to using cash as a one-time revenue source.

Actual expenditure of cash for ongoing operating costs has been variable in the last 12 years. These numbers are actual and do not include the amount budgeted, except in FY 08. The FY 07 Budget anticipated using $752,000 cash for Operating Expenses. Actual expenses show that cash was not used in FY 07 to pay for Operations. The Budget for FY 08 does not anticipate using cash for Operating expenses. This continues the county's shift from using cash to fund operating expenses to fund one time expenses. The County continues to use cash for the purchase of Capital equipment for most departments supported by tax revenues. While this is not shown in the graph the utilization of cash for capital should be eliminated, except for money set aside on a yearly basis for specific items – Detention Center replacement, Sheriff Vehicle replacement schedule, road equipment reserves, copier reserves, etc.



Without cash re-appropriated, the Commission could not have funded the FY 08 Capital Equipment Budget, let alone fund future budgets. As the County Budget becomes tighter, cash available to fund future capital items will decrease, resulting in a possible decline in services.

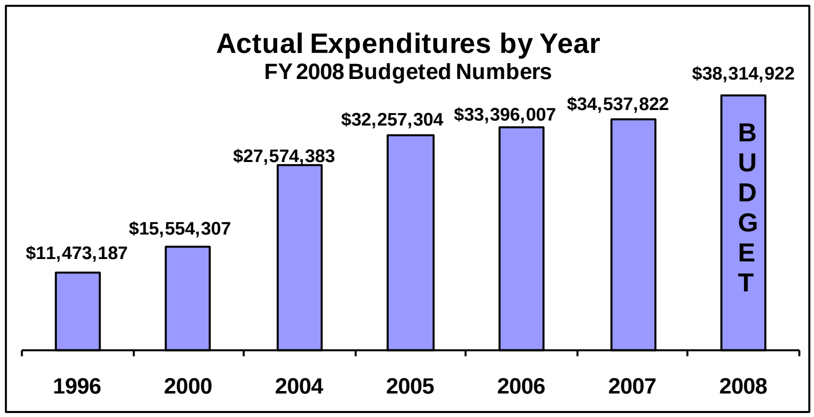
Finding: ***Favorable.*** The decrease of Cash as a revenue source for the FY 08 Operating Budget shows the Commission's commitment to using current revenues to fund non-recurring expenses, and using one-time revenues and cash to fund one-time expenses. For future years less reliance on cash for ongoing capital equipment needs will further enhance the county's ability to have sustainable budgets. The payment of dispatch capital equipment and building construction through the voted mill levies has helped to meet the goal of funding all department needs with ongoing revenue.

Favorable = the utilization of cash to pay for ongoing operational expenses is the exception not the rule based on prior year actual utilization and the FY 08 budget.

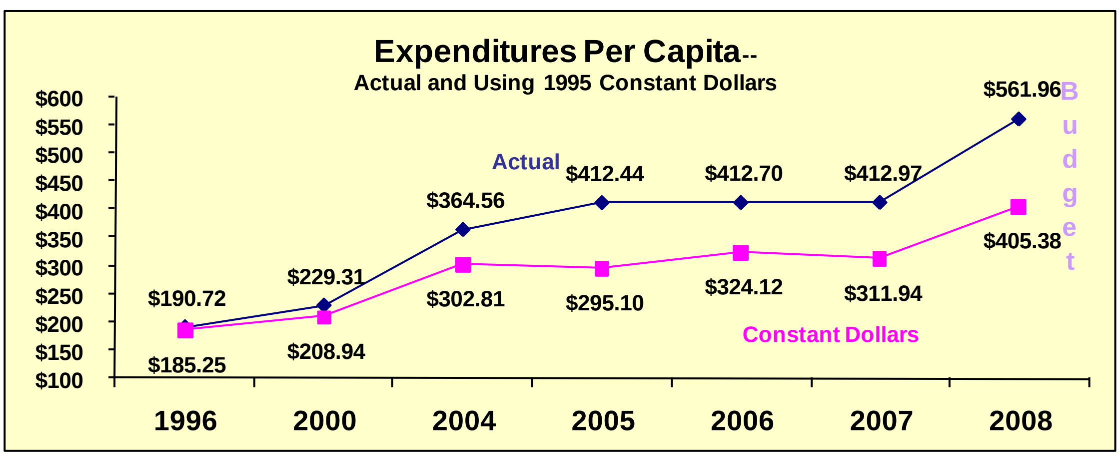
Expenditures:

Tax supported Funds show an increase in actual and per capita

Actual expenses during the preceeding 12 years and the FY 08 Budget show growth of expenses in actual dollars and in per capita. The FY 08 Expense Budget does not include the amount of Capital Reserves funded in the Budget. This adjustment more accurately reflects actual expenses made during each fiscal year. All calculations use only expenses from the County's tax supported funds – excludes grants, and district etc.



County expenses in **actual** dollars increased from $11.5 million in FY 96 to $34.5 million in FY 07 a 201% increase in twelve years. In constant dollars the increase would be $11.1 million (96.52%). The major differences above normal growth include creation of Administrative Office, Compliance Office, Court Services Office, Grants Office, Public Defenders Office, Joint Dispatch, Changes to Juvenile Detention, an increase in capital expenditures, a significant increase in oil related costs and $460,000 for Sworn Deputy Officers and Elected Officials salary increases in FY 02.

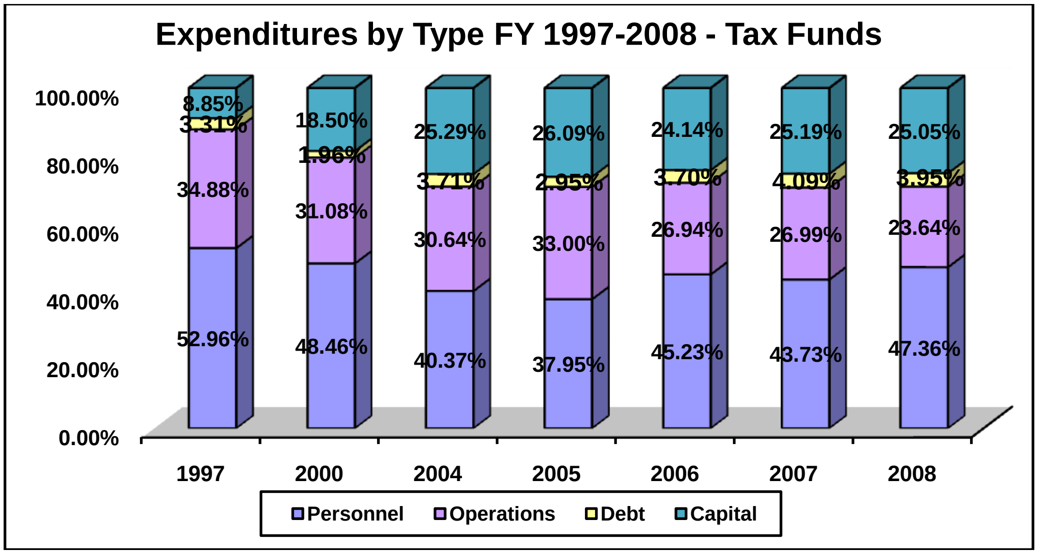


Finding: ***Favorable.*** Expenditures per capita in actual dollars and constant dollars have increased. The $148.99 per capita increase for FY 2008 comes from budget versus actual expenses. The final numbers will be lower. Also, in FY 2008 projects are in construction phase rather than in planning stages.

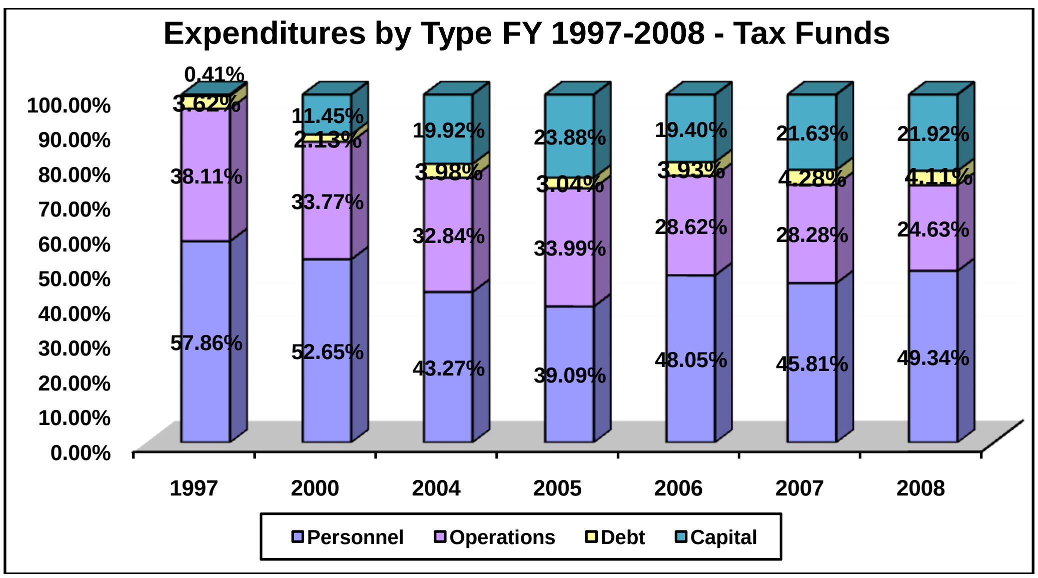
Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the county is maintaining or improving its costs for services.

Expenditures By Category:

The chart shows Personnel costs, the largest cost for Gallatin County, decreasing from 62.94% in FY 95 to 49.34% in FY 08 for the Budget.



This graph has not been adjusted for Capital Reserves that are set aside for future budgets. This overstates Capital Outlay and understates Debt Service, Operations and Personnel percentages. The graph below is adjusted by the removal of Capital Reserves. With Capital Reserves eliminated, Personnel costs continue to show a significant decline from 62.94% in FY 96 to the 45.81% in FY 2008.

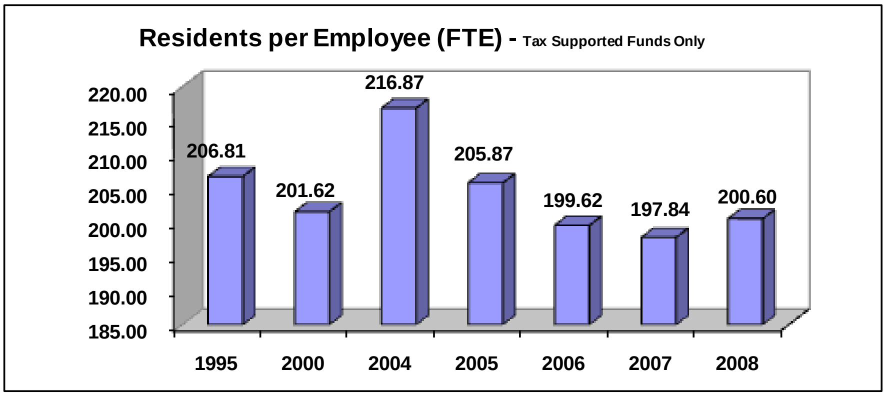


Finding**:** ***Favorable.*** Expenditures by category for Actual expenses show a decrease in the percentage being spent on Personnel. FY 08 numbers are based on the approved budget and will decrease before year-end.

Employees Per Capita:

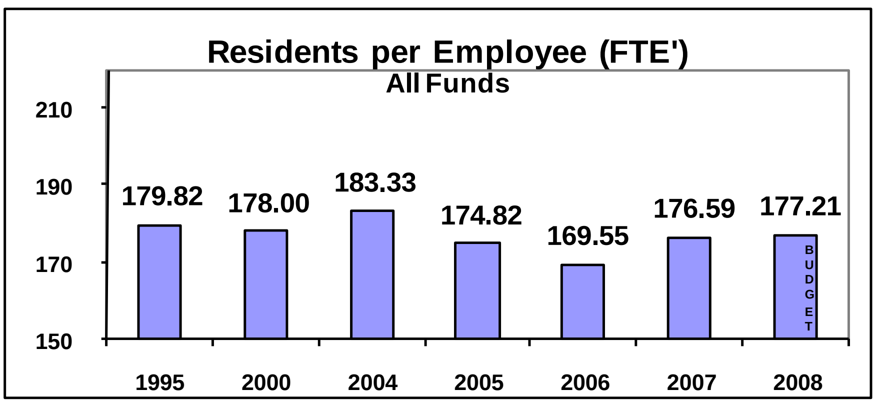
Employee levels have increased by 38% since FY 95 to the FY 08 Budget.

A comparison of the number of residents per employee indicates the ability of a Government to maintain service levels, provided all factors remain equal. In the years FY 95 through the FY 08 Budget, services have increased where needed. During this time the County added 134.83 employees. Increases came mostly from new departments - Administrator, Compliance, Court Services, Grants, Joint Dispatch / Records, Airport / Big Sky Deputies and other tax supported activities. Small growth, less than growth in population, is attributable to existing departments.



The graph above shows changes in residents per employee for tax supported funds. This is the most accurate comparison of service levels residents receive for the taxes they pay for county services.

The graph below represents residents per employee for all activities under the control of the County Commission. It includes grants, enterprise funds and other personnel employed by the County.



Finding: ***Unfavorable*** **–** Both graphs show increases in residents per employee. Even though new employees were added for new programs, overall the number of residents per employee increased.

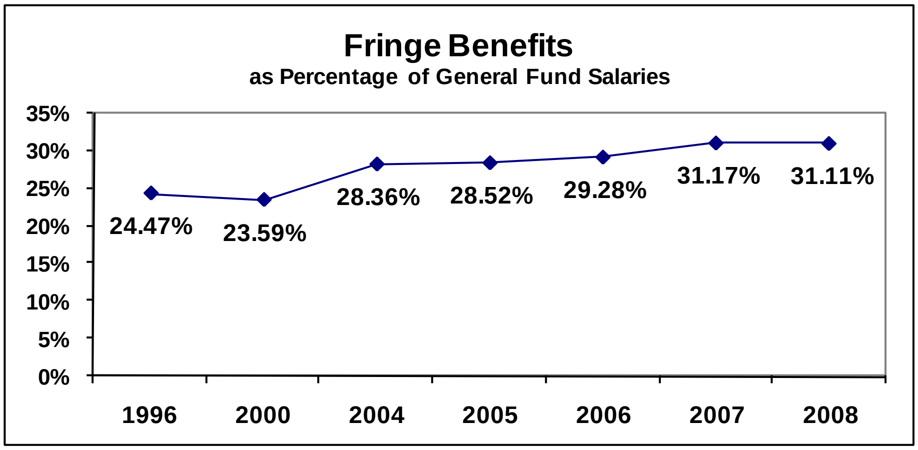
Favorable = a static or decrease in the number of residents per employee.

Expenditures for Fringe Benefits:

Fringe Benefit costs are increasing dramatically

Fringe Benefits under ideal conditions would increase at a percentage equal to or below the increase in Personnel (Favorable rating). When Fringe Benefits increase faster than Personnel Costs this results in an Unfavorable rating.

The following graph shows Fringe Benefit costs as a percentage to the General Fund Salaries. Fringe Benefits include Unemployment Insurance, Worker's Compensation, and Employer Contribution to Health Insurance, Public Employee/Sheriff/Teacher Retirement Systems, and Social Security and Medicare costs.

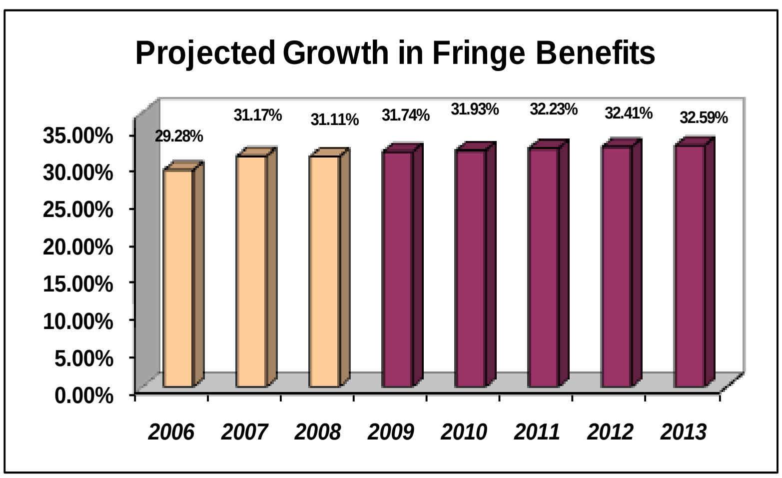


These calculations do not include a calculation for the statutory 15 days vacation, 12 days sick and 10 days holiday, which add to the benefit package. These benefits would add 14.17% to each of the years shown, and do not change without Legislative action.

Finding: ***Unfavorable.*** Fringe Benefit percentages increased for four of the last five years. The slight decrease in FY 08 comes from the County not increasing Employer Contribution to Health Insurance because of continued funding from Permissive Medical Levy. If the millage paid by the county from the Permissive Medical Levy were added to the current cost per employee for insurance the Fringe Benefit percentage would be 33.45% for FY 08. This would increase the percentage by a similar percentage when projections are made for the next 5 years.

Comments: The continued increase in health insurance costs will adversely affect the County's ability to adequately fund future year's budgets. The 6.075% increase in Fringe Benefits from 1996 to 2008 equals $176,038 for the General Fund and an estimated $565,028 countywide.

Favorable = a static or decrease in the percentage employee contributions are to total wages paid

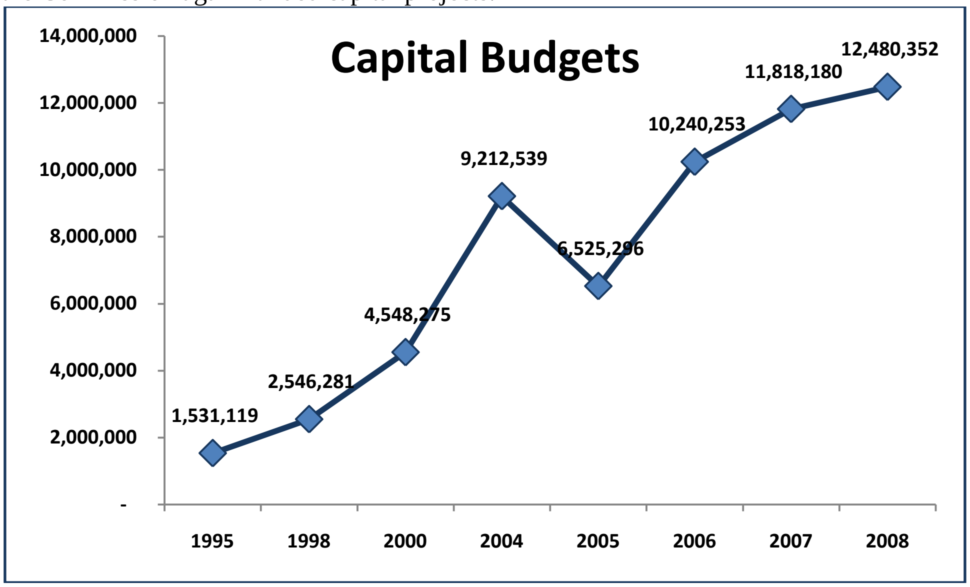


The County will need to take a very active role in decreasing health insurance premium cost increases to change the unfavorable ranking. Because the majority of cost increases come from areas not under the county's control, such as utilization, prescription, cost for new drugs and current medical inflation, the county will not be able to make a significant change in this indicator.

Capital Outlay and Capital Reserves:

Significant increase in dollars and percentages

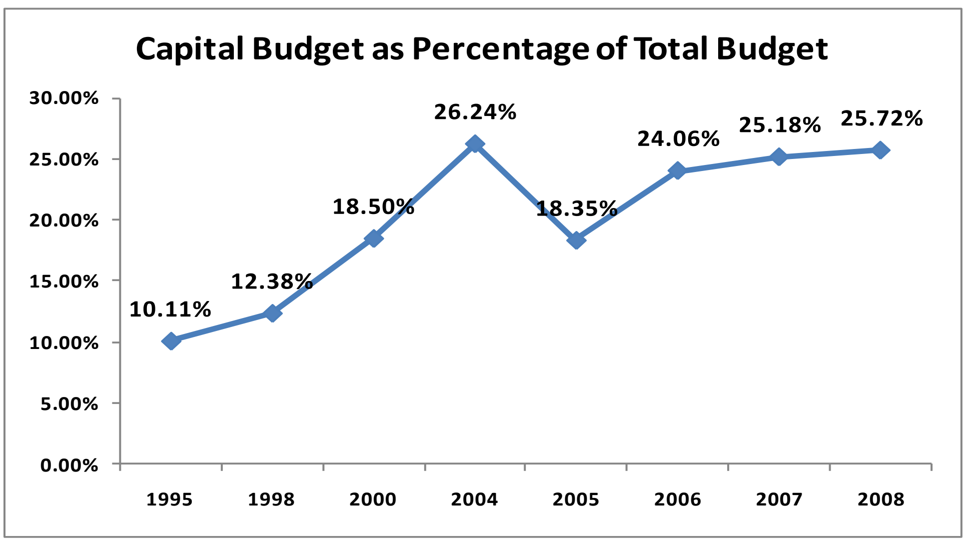
Capital Outlay and Capital Reserves in Gallatin County have changed dramatically in the last 13 years. Prior to 1996 the County rarely set aside funds unless a specific need was identified. In 1996 the County set aside $180,000 for future capital needs. In 1998 and again in 2000 the County formalized the Capital Improvement Program policy (the CIP) setting aside revenues generated from new construction taxes for approved Capital Improvement Projects. This changed in FY 05 but in FY 06, FY 07 and FY 08 the Commission again funded capital projects.



Finding: ***Favorable.*** The Commission for FY 06, FY 07 and FY 08 reversed the FY 05 decision to not use new construction values for projects and levied taxes for the Capital Projects Fund, including an additional $300,000 for the Detention Center set aside, bringing the amount levied in FY 08 to $900,000.

The reinstatement of tax dollars shows a commitment by the County Commission to fund capital projects. The following graph shows Capital Budgets compared to total budgets.

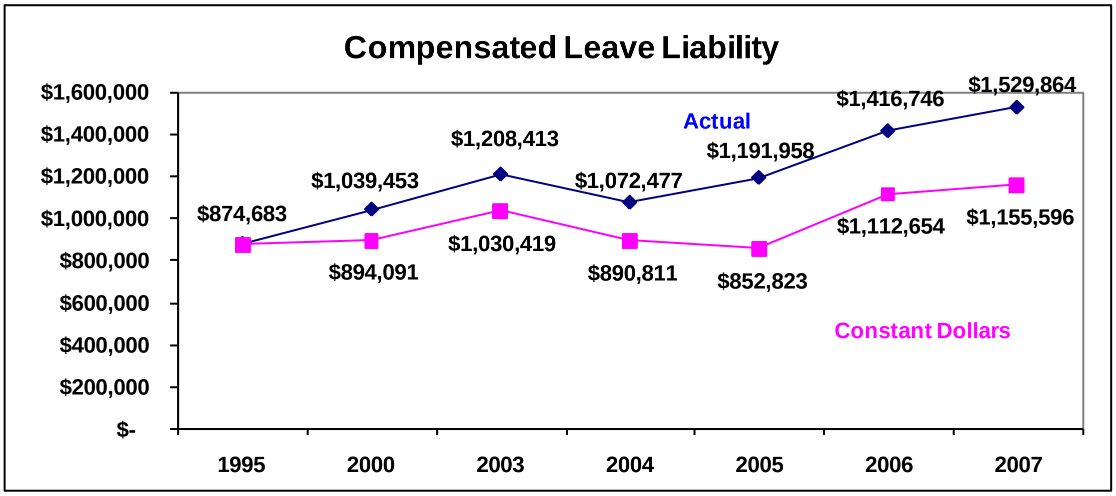
Favorable = a level or increase in the percentage capital outlay /reserves are to total budget



Compensated Leave Balances:

Compensated Leave increased by 7.98% for the beginning of FY 08

The County's Compensated Leave Balances normally would increase at the rate wages increase. During the previous 6 years, compensated leave balances increased at a rate greater than the rate of inflation. However, FY 04 saw a decrease of 8.02% in new dollars and a 2.9% decrease in constant 1995 dollars. This was a significant event for the financial stability of the County. The County was not able to maintain this change for FY 05. FY 07 continued the upward trend with a 7.98% increase.



A comparison of the last three years shows that leave hours and costs have increased but the largest percentage increase is associated with Fringe costs.

	Sick Leave		Annual Leave		Compensatory Leave		
	Hours	**Cost**	**Hours**	**Cost**	**Hours**	**Cost**	**Fringe**
2005	76,070	$ 352,993	46,117	$ 815,774	4,013	$ 72,514	$139,528
2006	75,846	384,166	46,246	893,541	4,013	78,929	154,088
2007	79,475	405,864	47,432	928,612	3,865	77,446	164,959
% of Total	60.77%	28.77%	36.27%	65.77%	2.96%	5.46%	
Change	(3,624)	($ 21,698)	(1,118)	($ 35,071)	148	$ 1,483	($10,871)
%	(4.78%)	(5.64%)	(2.41%)	(3.92%)	3.68%	1.87%	(7.05%)

Finding: ***Unfavorable:*** While the graph clearly shows that the trend continues upward the county has limited ability to make significant change to leave balances. Both Sick and Annual leave are set by state statute. This law is beyond the County's ability to change. However, a change in policy requiring employees to take a minimum of two-thirds their annual vacation accrual could be attempted, and would have a positive effect on leave balances. Compensatory time policy could be changed, but would only represent 5.46% of the total and with most compensatory time and cost associated with unions, Elected Official staff, Agencies, and Landfill/Refuse, the Commission could only affect 43% of compensatory liability (2.38% of total liability). Sick hours are the highest number of hours but the cost is significantly lower because state law only requires payout at 25% of accrued sick leave upon termination.

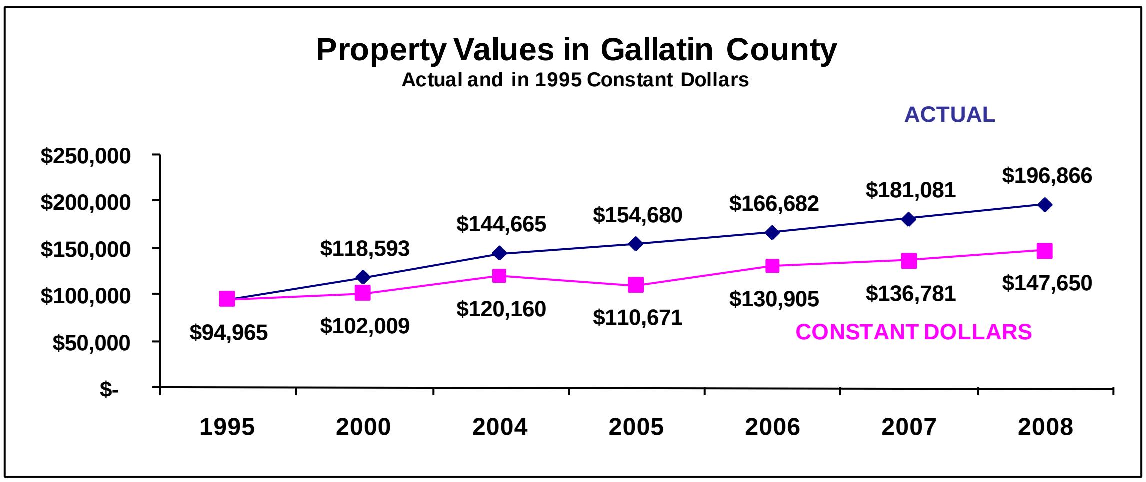
Favorable = a static or decrease in the liability from Compensated Leave in dollars.

Property Values in Gallatin County:

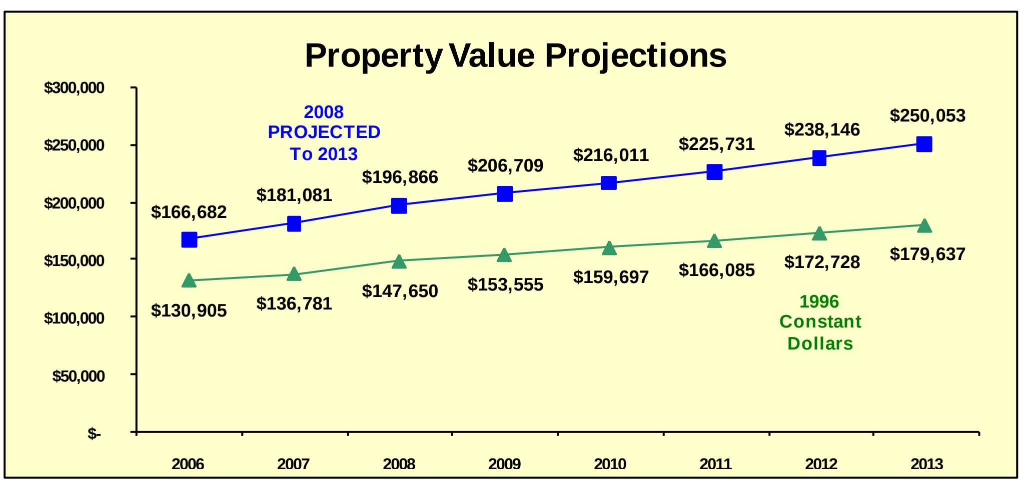
Adjustments by State Legislature complicates comparison of Property Values

The increase in taxable value from FY 07 for FY 08 is 8.72%. This increase comes in commercial and residential property values. The following is a comparison from 99-00 to 07-08 of the change in taxable values

99-00	.64%
00-01	(.06)%
01-02	5.57%
02-03	7.80%
03-04	7.64%
04-05	7.17%
05-06	8.33%
06-07	8.64%
07-08	8.72%



Finding: ***Favorable.*** The ability to increase the number of mills to compensate for inflation, health insurance premium increases and for Dispatch maintains this factor as 'Favorable'. Continuation of not maximizing millage is adversely affecting the county.



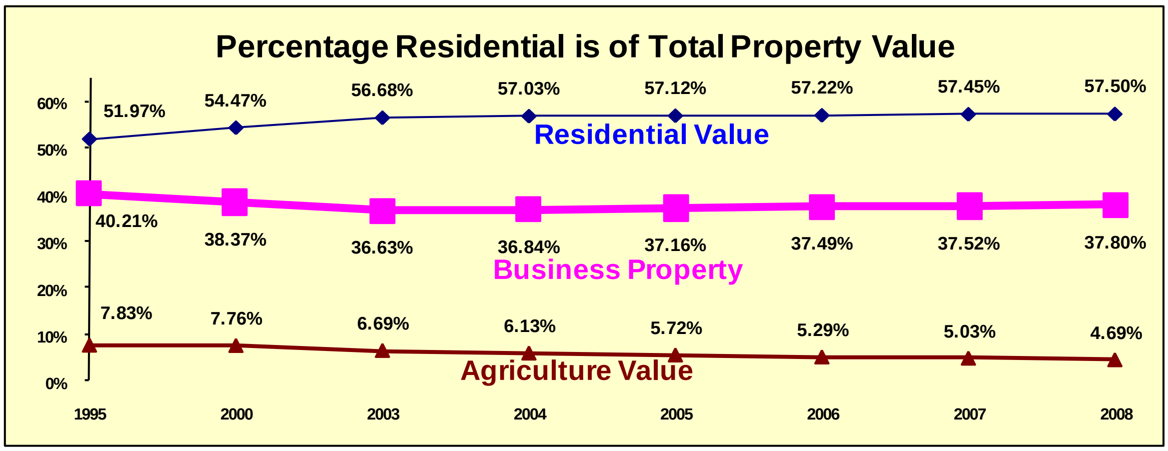
Favorable = an increase in the taxable value of the county, inclusive of known changes relative to the previous legislative actions.

Residential Property Values:

Changes by State Legislature has increased Local Governments reliance on Residential Property Taxes

House Bill 124 and other Legislative Bills implemented changes in the method DOR uses to calculate property values. The result of these changes is an increase in the reliance of Gallatin County on taxes generated by Residential Property. This also affects the Floating Mill Levy, and the Inflationary Millage allowed by HB 124. This results in more taxes being paid by residents than ever before. Residential tax percentages have increased from 51.97% in 1995 to 57.50% in 2008, plus the number of mills increased causing an adverse affect on residential property owners.

The increase in the County's reliance on residential property values may cause the voter's of the County to not support needed Local Government initiatives.



Finding: ***Unfavorable.*** The continued increase on residential property values adversely affects the County's financial stability. A significant reliance on one type of property tax decreases flexibility and stability of revenues.

Comment: Decisions by the County can only peripherally affect the costs to residential property owners. One decision the Commission made is to not levy the maximum millage for FY 07 and FY 08. The County Commission, Elected Officials and Department Heads need to be aware of the full effect of decisions they make, as it relates to increased costs to Residential Property taxpayers.

The significant increase in the amount of taxes paid by residential property taxpayers does have a positive impact. It is decreasing the shortfall identified in 1997 between the $1.36 cost for services required by residential development, to the $1.00 in taxes paid.

Favorable = a decrease or static percentage Residential Property taxes are to the total County Taxable Values.

Property Tax Statistical Analysis:

The County Treasurer has identified a method to calculate the Average Parcel Taxable Value and Median Parcel Taxable Value for Residential property for Gallatin County. These calculations show a significant change between Tax Year 2000 and the current Tax Year 2004.

The table that follows shows County wide Real Estate Taxable Values, Real Estate Parcels Billed, Average parcel information, and Average General Tax using average Residential and Commercial bills for Tax Year 2004, 2005, 2006 and 2007.

Property Tax Statistical Analysis

	2004		2005		2006		2007	
Real Estate Taxable Value	**150,149,048**		**162,161,048**		**176,293,222**		**191,110,330**	
Residential & N/Q Ag	88,727,566	59%	99,598,380	61%	107,734,744	61%	120,822,354	63%
Commercial and Other	61,421,482	41%	62,562,668	39%	68,558,478	39%	70,287,976	37%
Number Parcels Billed	**37,744**		**39,744**		**41,490**		**45,773**	
Residential & N/Q Ag	30,207	80%	33,040	83%	35,267	85%	39,822	87%
Commercial and Other	7,537	20%	6,704	17%	6,223	15%	5,951	13%
Average Parcel Taxable Value	**3,978**		**4,080**		**4,249**		**4,328**	
Residential & N/Q Ag	2,937		3,014		3,055		3,029	
Commercial and Other	8,149		9,332		11,017		11,845	
Average Parcel General Tax	**$ 1,767.94**		**$ 1,866.95**	**5.60%**	**$ 1,959.41**	**4.95%**	**$ 2,434.67**	**24.26%**
Residential & N/Q Ag	1,305.40		1,379.34	5.66%	1,408.71	2.13%	1,426.68	1.28%
Commercial and Other	3,621.72		4,270.11	17.90%	5,080.36	18.97%	5,578.86	9.81%

The comparison shows that

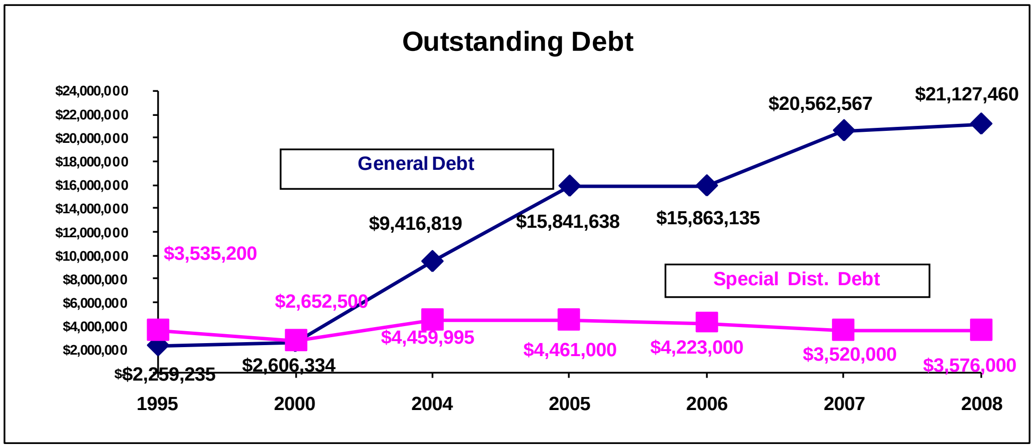
1) Real Estate Taxable Values have increased by 27.281% from 2004 to 2007, with Residential fluctuating between 59-63% and Commercial fluctuating between 37-41%.
2) The number of bills created jumped by 4,283, from last year, a 10.32% increase.
3) Average Taxable Values DECREASE by 0.0085% for Residential and increased by 7.51% for Commercial.
4) Average General Tax increased by $475.26 (24.26%) with Residential increasing by $17.97 (1.28%) and Commercial increasing by $498.50 (9.87%).

Finding: ***Favorable.*** The increase in values of the Average Parcel Taxable Value along with the increase in taxes generated by the Average Parcel is a positive financial condition for the county. Also Commercial & Other growth has exceeded Residential growth in Taxable Value and General Tax.

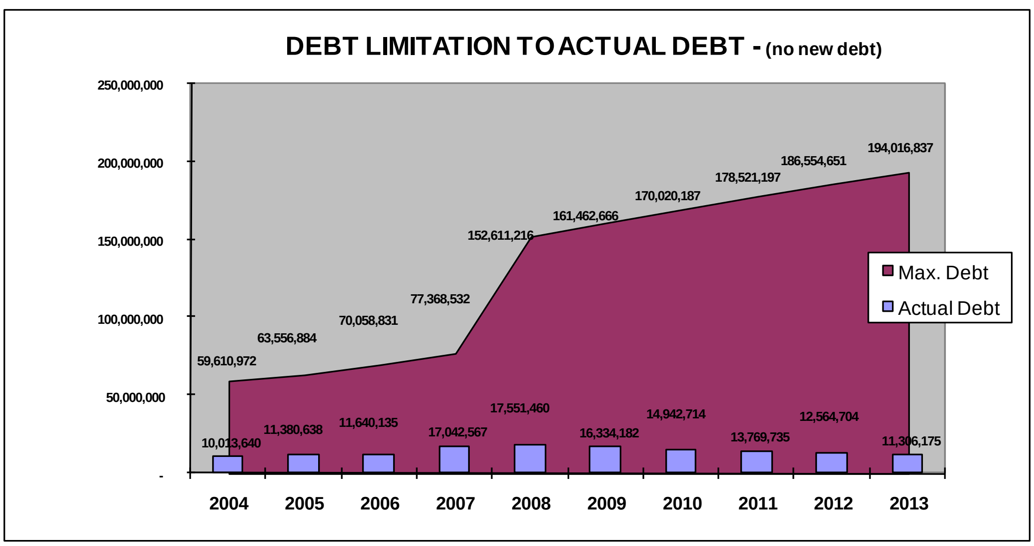
Favorable = growth in Average Taxable Value shows growth in tax base;

Debt Service – General Obligation Debt – Rural Improvement Debt:

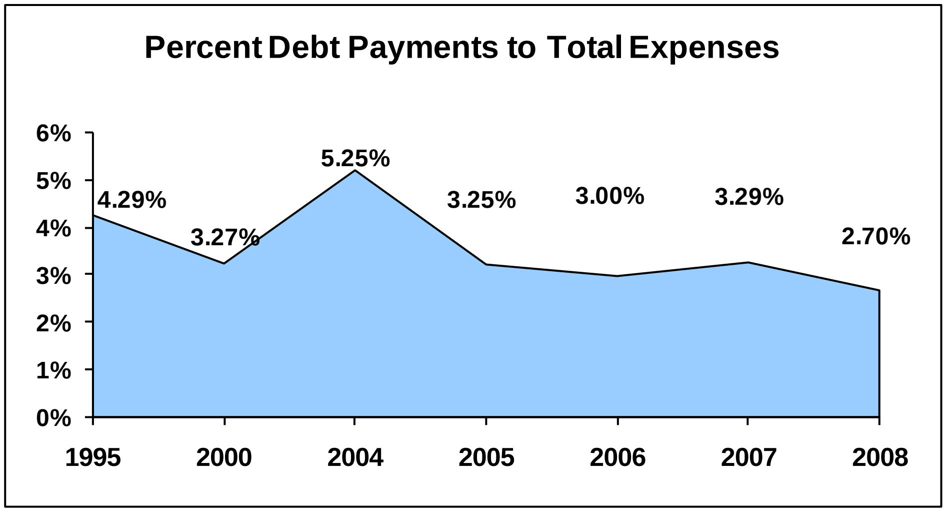
State law sets the maximum debt for Gallatin County at 2.50% of the County's Assessed Valuation. The percentage was increased to 1.40% for FY 08 by the legislature, which equals $77,368,532, (see page 17 for calculations). As of June 30, 2007, the County had $21.1 million in debt, plus the Open Space bonds of $7.2 million authorized in Nov. 05, but not used. Outstanding Debt is taken from the Audited financial statements for the period ending June 30 of the prior fiscal year.



A third vote has not been scheduled for the replacement of the current Detention Center after the failure of the $18,370,000 bond in July 02, and the $20,000,000 in August 06.



Finding: ***Favorable*** **–**The County will stay significantly below the statutory maximum of 2.50% of assessed value even with the issuance of a bond for a new Detention Center.



Finding: ***Favorable*** **–** Credi**t** rating firms generally view debt service as unfavorable if debt payments exceed 20% of a budget. The FY 2008 debt ratio is 2.70 %, significantly below the threshold. The issuance of the Open Land Bond and potential Detention Bond indicates the County may cause this indicator to move into a 'Watch' status.

The County's Bond rating is "A+" according to a January 2006 review by Standard's and Poor (S&P)